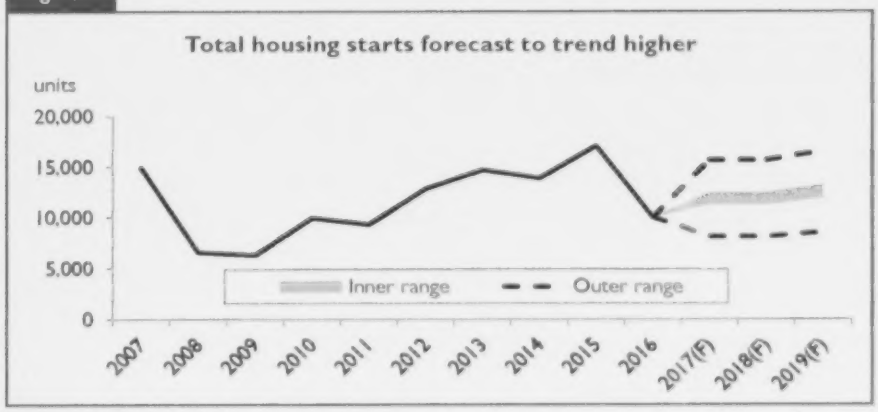
HOUSING MARKET OUTLOOK

Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

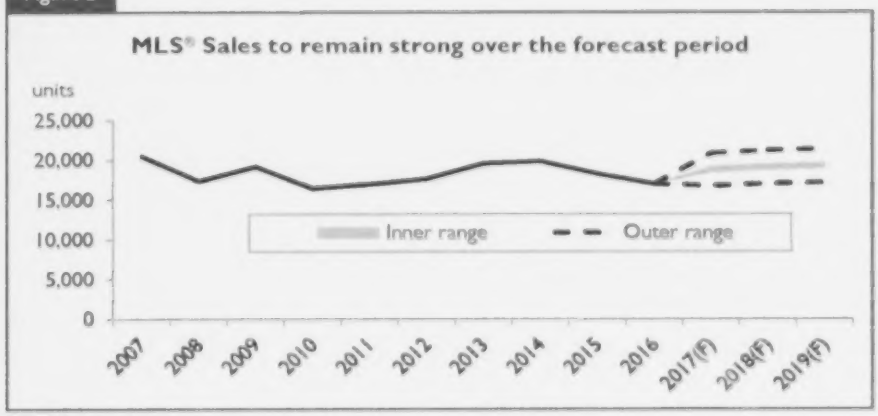
Date Released: Fall 2017

Figure 1



Source: CMHC, CMHC Forecast (F)

Figure 2



Source: CREA, CMHC Forecast (F)

Highlights[1]

- Housing starts in 2018 will be impacted by a slowdown in the apartment sector.
- Existing home sales are forecast to trend higher.
- Rental apartment vacancy rates to decline as increases in demand will outpace supply.

New home market: Oversupply of apartment units to impact starts

The return of job growth combined with a rise in activity in the resale market bode well for new home demand, particularly for low rise homes. The rate of employment growth in the Edmonton Census Metropolitan Area (CMA) is expected to rise over the forecast period, boosting consumer confidence and further increasing the demand for new homes. Lower net migration levels, however, will act as a drag on household formation rates. Mortgage rates near historic lows will continue to benefit home buying activity. On the supply side, abundant listings of condominium apartments from the existing home market,

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

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rising inventories of newly completed but unsold apartments, and an elevated vacancy rate all indicate there is currently an oversupply of both condominium and rental apartment units. This oversupply will slow apartment starts as builders respond to market conditions.

Improving economic conditions are expected to boost single-detached starts throughout the forecast period. Multi-family housing starts will dip in 2018 before rebounding in 2019 as apartment inventories move back toward a balanced level. Fewer high-rise units under construction in the latter part of 2017 and into early 2018 will slow the rate of new completions while an uptick in demand will draw down inventories. The expected slowdown in apartment starts will negatively impact multi-family housing starts, but increased construction of semi-detached and row units over the forecast period will partially offset some of the impact.

Figure 3

Source: CREA, CMHC forecast (F)

Existing home market: Stronger sales in 2017 to continue into 2018 and 2019

After sliding for two consecutive years, MLS® residential sales are on pace to rebound in 2017. August 2017 year-to-date sales were up 12% compared to the same period in 2016 and are expected to remain strong over the forecast period. The number of new listings have followed sales higher, reaching levels not seen since 2008. As a result, the seasonally adjusted sales-to-new listings ratio has been trending lower, indicating that market conditions continue to favour buyers. Market conditions are expected to become more balanced over the forecast horizon.

The year-over-year change in the Edmonton Teranet-National Bank House Price Index™ was mostly negative for the first half of this year, climbing to 0.9% in August. While the MLS® average price was up 3.5% year-over-year, much of the increase was due to a larger proportion of sales in the higher end of the price spectrum. The average resale price will rise throughout the forecast period and growth is expected to be around the general rate of inflation.

Rental Market: Vacancy rates to fall

After three consecutive years of increases, Edmonton's rental apartment vacancy rate is expected to move lower over the forecast period as growing rental demand outpaces increases in supply. In the first eight months of 2017, the number of newly completed rental apartment units that were unoccupied have been declining. Fewer rental apartment completions will slow additions to these inventories as the number of units under construction have been trending lower since mid-2015, while rental demand continues to rise.

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Average rents are forecast to move lower in 2017 as landlords continued to offer discounts and incentives in response to the elevated vacancy rate. Rents will stabilize in 2018 and 2019 as vacancy rates move lower.

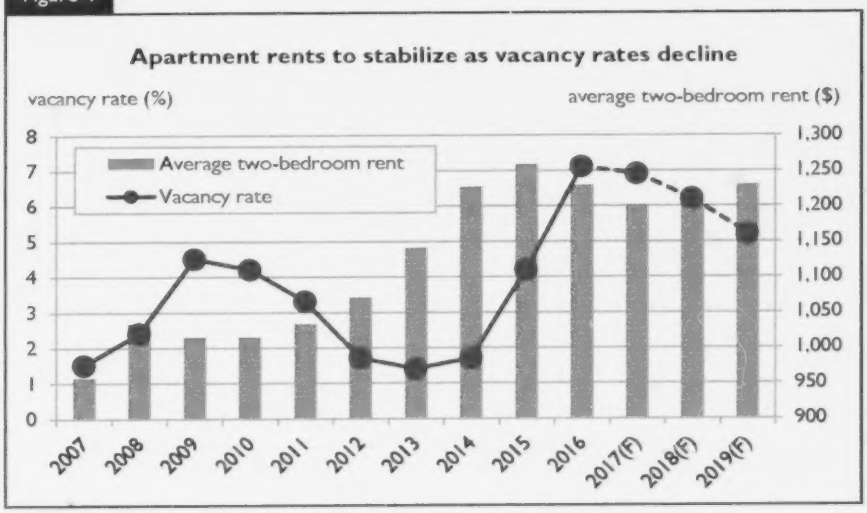
Economic and demographic overview: Employment growth to increase through 2019

Employment in the goods producing sector has been trending higher this summer while the service sector has contracted. On a seasonally adjusted basis, employment in the Edmonton CMA gained 13,000 jobs in the first eight months of 2017 after shedding 34,300 jobs in the last eight months of 2016. While employment has been rising, so too has the labour force. As a result, the unemployment rate has continued to trend higher, reaching a seasonally-adjusted 8.7% in August. Employment growth is expected to increase over the forecast period and this will gradually reduce the unemployment rate through 2019.

Oil prices bottomed in early 2016 then trended higher before stabilizing this year. Higher prices have resulted in an increase of drilling activity in the province compared to 2016. Consumer spending followed oil prices higher with increases in both retail sales and home purchases. Additional economic stimulus through increases in oil prices will be limited due to increased shale oil production in the United States.

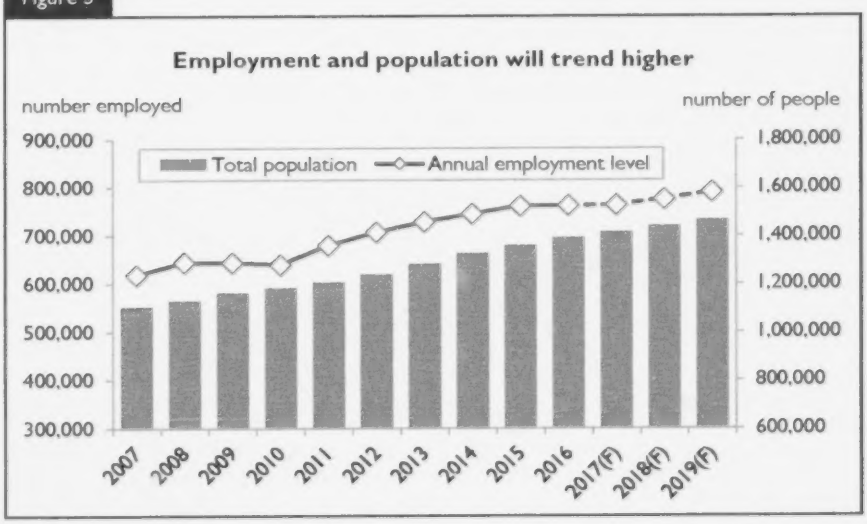
While demographic fundamentals will continue to fuel housing demand, household formation rates will be impacted by lower levels of net migration. More favourable labour markets in centres outside Alberta are negatively impacting Edmonton's interprovincial migration levels. Net migration is expected to move up in 2018 and 2019 with increasing employment opportunities, thereby increasing population growth and housing demand.

Figure 4



Source: CMHC, CMHC Forecast (F), October Surveys

Figure 5



Source: Statistics Canada, CMHC Forecast (F)

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Edmonton CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	6,832	5,683	4,335	4,800	5,800	5,300	6,300	5,500	6,700
Multiples	7,040	11,367	5,701	5,400	7,800	5,000	7,200	5,300	7,700
Starts - Total	13,872	17,050	10,036	11,300	12,500	11,300	12,500	11,900	13,300
Resale Market									
MLS® Sales	19,857	18,227	16,990	18,400	19,200	18,700	19,500	18,900	19,700
MLS® Average Price($)	362,657	369,536	369,365	376,800	381,200	382,800	387,200	390,700	395,300
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	1.7	4.2	7.1	6.9	6.2	5.2
Two-bedroom Average Rent (October)($)	1,227	1,259	1,229	1,200	1,210	1,230
Economic Overview						
Population	1,327,531	1,359,158	1,392,594	1,415,000	1,439,000	1,466,000
Annual Employment Level	744,800	761,000	761,100	763,000	775,300	790,100

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).
Rental Market: Privately initiated rental apartment structures of three units and over.
The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range, (H)=High end of range.
It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Sources: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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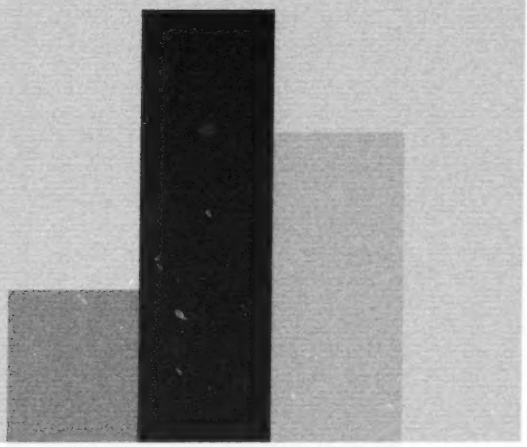

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